

**STATE OF GEORGIA  
COUNTY OF FULTON  
CITY OF SOUTH FULTON**

**ORDINANCE No. 2017-022**

**ADOPTION OF DEBT POLICY ORDINANCE**

**WHEREAS**, the City of South Fulton ("City") is a municipal corporation duly organized and existing under the laws of the State of Georgia;

**WHEREAS**, Sections 6.22 through 6.25 of the City Charter authorizes the City Council to enact budget ordinances and controls;

**WHEREAS**, Chapter 81 of Title 36 of the Official Code of Georgia Annotated mandates that municipal governments enact annual budgets and budget controls;

**WHEREAS**, the City finds it to be in the public interest and for the protection of the public welfare to establish detailed financial policy through a set of ordinances:

**THE COUNCIL OF THE CITY OF SOUTH FULTON HEREBY ORDAINS**  
as follows:

**Section 1: Enactment of Debt Policy Ordinance**

Chapter 11 of Title 1 of the Official Code of the City of South Fulton shall be entitled "Debt Policy" and is hereby created as follows:

**Sec. 1-110001 - Introduction**

City of South Fulton recognizes that one of the keys to sound financial management is a debt policy. These benefits are recognized by bond rating agencies and the development of a debt policy is a recommended practice by the Government Finance Officers Association. A debt policy establishes the parameters for issuing and managing debt. It provides guidelines regarding the timing and purposes for which debt may be issued, presents the types of permissible debt, and the methods of sale that may be used. The debt policy should recognize an obligation to fully and timely repay all debt as an essential requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that a government maintains a sound financial position and that credit quality is protected.

The debt policy is to be used in conjunction with the operating and capital budgets, the Capital Improvement Program (CIP), and other financial policies. The advantages of a debt policy are:

- enhancing the quality of decisions;

- documenting the decision-making process;
- identifying objectives for staff to implement;
- demonstrating a commitment to long-term financial planning objectives; and
- being viewed positively by the bond rating agencies.

## **Sec. 1-110002 - Debt Instruments**

General obligation bonds are bonds secured by a promise to levy taxes in an amount necessary to pay debt service, principal and interest, coming due each fiscal year. General obligations bonds are backed by the full faith and credit of the City. These bonds are authorized by a referendum or by non-voted (2/3's) authorization by the governing body. The non-voted authorization allows governments to issue up to two-thirds of the previous year's net debt reduction without a referendum.

Revenue bonds are a pledge of the revenues generated by the debt financed asset or by the operating system of which that asset is a part.

Special obligation bonds are bonds that are payable from the pledge of revenues other than locally levied taxes. Examples include the beer and wine tax or enterprise revenues.

Certificates of Participation (COPs) are an alternative financing method that does not require voter approval. These certificates represent an undivided interest in the payments made by a public agency pursuant to a financing lease or an installment purchase agreement. The security for this financing is represented by a lien on the property acquired or constructed. The City uses COPs for City facilities.

An Installment Purchase Contract is an agreement in which the equipment or property is acquired and periodic payments, which are sufficient to pay debt service, are made.

## **Sec. 1-110002 - City Debt Policy**

- (a) Long-term debt shall not be used to finance ongoing operational expenses.
- (b) Any debt issued shall not have a maturity date beyond the useful life of the asset being acquired or constructed by the debt proceeds.
- (c) The City shall establish an affordable debt level to preserve credit quality and ensure sufficient revenue is available to pay annual debt service. This will be balanced against the City's need to maintain its infrastructure and manage growth.
  - i. The City will use appropriate debt instruments to provide funding for capital assets at the lowest cost with minimal risk. The City will monitor its debt positions to maintain the lowest effective cost.
  - ii. The City will, at all times, manage its debt and sustain its strong financial position, including healthy reserves, to seek and maintain the highest credit rating possible.



### **Sec. 1-110003 - Purposes for Debt Issuance**

The City may issue debt for the purpose of acquiring or constructing capital assets including land, buildings, machinery, equipment, furniture and fixtures. When feasible, debt issuance will be pooled together to minimize issuance expense. Annually, the City will prepare and adopt a Capital Improvement Program (CIP) to identify and establish an orderly plan to meet the City's infrastructure needs. The CIP will also identify all debt-funded projects and the related debt service impact.

### **Sec. 1-110004 - Debt Structure**

Debt will be paid off in a timeframe that is less than or meets the useful life of the asset or project acquired through the financing. The life of the debt, interest mode and principal maturity schedule make up the structure of the debt. This debt could be general obligation, revenue or special obligation bonds, certificates of participation or other installment financing agreements.

The City will consider various financing techniques including fixed or variable interest rate debt and interest rate swap agreements in order to minimize the interest costs over the life of the issue. The use of these techniques will be evaluated based on market conditions and the maximum benefit to the City while minimizing the City's risk. The City will limit the ratio of unhedged variable rate debt to 35% of the total outstanding debt.

### **Sec. 1-110005 - Debt Ratios**

The City shall abide by the following debt ratios:

(a) Overall Debt as a Percentage of Assessed Valuation

This ratio measures debt levels against the property tax base which generates the tax revenues that are the main source of debt repayment. The ceiling for this ratio is 10.0%.

(b) Overall Debt per Capita

This ratio measures the burden of debt placed on the size of the population supporting the debt and is widely used by rating analysts as a measure of an issuers' ability to repay debt. This measure will not exceed \$2,200.

(c) General Debt Service as a percentage of Operational Expenditures

This ratio reflects the City's budgetary flexibility to adapt spending levels and respond to economic condition changes. This ratio is targeted at a level of 12% with a ceiling of 14%. The City's policy is to manage to the target of 12%. The ceiling of 14% is meant to provide flexibility in extraordinary circumstances.

(d) Ten-year Payout Ratio

This ratio reflects the amortization of the City's outstanding debt. A faster payout is considered to be a positive credit attribute. The City will maintain a floor for its ten-year payout of 64.0%.

These ratios will be calculated and reported each year in conjunction with the capital budget process, the annual financial audit and as needed for fiscal analysis.

#### **Sec. 1-110006 - Debt Management Policies**

- (a) The City will issue debt only for the purposes of constructing or acquiring capital assets and for making major renovations to existing capital assets.
- (b) The City shall not construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility.
- (c) The City will ensure that adequate systems of internal control exist so as to provide reasonable assurance as to compliance with applicable laws, regulations, and covenants associated with outstanding debt.
- (d) The City will manage debt issuance to comply with the adopted debt limits and will evaluate those limits at least every five years.
- (e) The City will attempt to structure debt in the best and most appropriate manner consistent with the financial policies of the City to level principal repayment and minimize interest expense.
- (f) The City will monitor its outstanding debt in relation to existing conditions in the debt market and will refund any outstanding debt when sufficient cost savings can be realized or utilize interest rate swap agreements to achieve cost savings.
- (g) To reduce the impact of capital programs on future years, the City will fund a portion of its CIP on a pay-as-you-go basis by:
  - appropriating proceeds from all City sales for capital projects.Pay-as-you-go funding will save money by eliminating interest expense on the funded projects. Pay-as-you-go capital appropriations improve financial flexibility in the event of sudden revenue shortfalls or emergency spending.

#### **Sec. 1-110007 - Administration and Implementation**

The City Manager and the Chief Financial Officer are responsible for the administration and issuance of debt including the completion of specific tasks and responsibilities included in this policy. The City will evaluate the debt policy at least every five years.



## **Sec. 1-110008 - Capital Planning and Debt Determination**

The Citizens Capital Budget Advisory Committee (CCBAC) appointed by the City Council, reviews departments' and other agencies' capital requests and recommends capital projects based on needs. The City Manager provides a recommended Capital Improvement Program (CIP) for consideration by the City Council. The City Council then approves both a five-year needs assessment and an annual capital budget. The City Council adopts capital projects ordinances which provide budgetary authority.

Funding of the capital budget will be determined in conjunction with the approval of the CIP by the City Council. Available pay-as-you-go funding and debt issuance will be allocated to fund the CIP based on the debt management policy. Debt financing will also be considered for equipment items that normally do not go through the CCBAC, but are included in departmental requests.

All voted authorizations for those purposes authorized by the Local Government Bond Act will be scheduled for referendum in November at the time of the general election. When possible, the City will utilize the non-voted (two-thirds) bond authorization for bonds to fund projects, such as government facilities.

The City uses a combination of bonds and Certificates of Participation (COPS) to finance capital assets. COPS do not require voter approval but do require collateral as security. COPS are usually used to finance projects deemed essential by the governing body and timing is such that it is impractical to seek voter approval.

Any capital item that has not been included in either of the above two processes, but because of its critical or emergency nature where timing was not anticipated in the CIP or budgetary process, or is mandated immediately by either State or Federal requirements, will be considered for financing by installment purchase contract.

## **Sec. 1-110009 - Issuance of Debt**

The scheduling and amount of bond sales and installment purchase transactions will be recommended by the Chief Financial Officer and the City Manager. The City Council must approve the sale. These decisions will be based upon the identified cash flow requirements for each project to be financed, market conditions, and other relevant factors including the debt ratios. If the cash requirements for capital projects are minimal in any given year, the City may choose not to issue debt. Instead, the City may fund up-front project costs and reimburse these costs when financing is arranged. In these situations, the City will adopt a reimbursement resolution prior to the expenditure of project funds.

Variable rate bonds, revenue and special obligation bonds and COPS will be sold on a negotiated basis with the underwriter selection determined through a competitive process. Underwriters will be selected for each issue based on the experience and expertise necessary for that issue.

Debt service for each issue will be structured to level out the City's total debt service payments over the life of the debt portfolio. This structuring also assists in minimizing the interest payments over the life of the issue. Structuring must take into consideration current market conditions and practices in the municipal finance market.

#### **Sec. 1-110010 - Legality**

The City must receive an opinion acceptable to the market from a nationally recognized law firm that each financing transaction complies with applicable law and all agreements in connection with any financing are legal, valid and binding obligations of the City.

#### **Sec. 1-110011 - Interest Rate Exchange Agreements**

Interest Rate Exchange Agreement shall mean a written contract entered into in connection with the issuance of City debt or in connection with City debt already outstanding with a counterparty to provide for an exchange of payments based upon fixed and/or variable interest rates. The City will govern the use of Interest Rate Exchange Agreements by the policy described in Attachment I to this debt management policy.

#### **Sec. 1-110012 -Continuing Disclosure**

The City will provide on-going disclosure information to established national information repositories and maintain compliance with disclosure standards promulgated by state and national regulatory agencies. The City will maintain good communications with bond rating agencies to inform them about the City's financial position by providing them the City's Comprehensive Annual Financial Report (CAFR) and operating and capital improvements Budget.

#### **Sec. 1-110013 -Arbitrage Rebate Reporting**

The City will comply with all arbitrage rebate requirements as established by the Internal Revenue Service and all disclosure requirements established by the Securities and Exchange Commission. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with the tax law and remitting rebatable earnings to the federal government in a timely manner to preserve the tax-exempt status of the City's outstanding debt issues.

The foregoing Ordinance No. **2017-022** adopted on **September 13, 2017** was offered by **Mayor Pro Tem Rowell**, who moved its approval. The motion was seconded by Councilmember **Gilyard**, and being put to a vote, the result was as follows:

**“SECOND READ”**

	AYE	NAY
William “Bill” Edwards, Mayor	<hr/>	<hr/>
Catherine Foster Rowell, Mayor Pro Tem	<hr/> √	<hr/>
Carmalitha Lizandra Gumbs	<hr/> √	<hr/>
Helen Zenobia Willis	<hr/> √	<hr/>
Gertrude Naeema Gilyard	<hr/> √	<hr/>
Rosie Jackson	<hr/> √	<hr/>
khalid kamau	<hr/> √	<hr/>
Mark Baker	<hr/> √	<hr/>



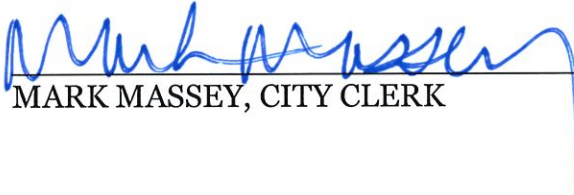
THIS ORDINANCE adopted this 13<sup>th</sup> day of **September, 2017. CITY OF SOUTH FULTON, GEORGIA**

**“SECOND READING”**



\_\_\_\_\_  
WILLIAM “BILL” EDWARDS, MAYOR

ATTEST:



\_\_\_\_\_  
MARK MASSEY, CITY CLERK



APPROVED AS TO FORM:



\_\_\_\_\_  
JOSH BELINFANTE, INTERIM CITY ATTORNEY



## **Attachment I**

### **City of South Fulton**

#### **Interest Rate Exchange Agreement Policy**

This policy will govern the use by City of South Fulton (the “City”) of Interest Rate Exchange Agreements. “Interest Rate Exchange Agreement” shall mean a written contract entered into in connection with the issuance of City debt or in connection with City debt already outstanding with a counterparty to provide for an exchange of payments based upon fixed and/or variable interest rates. The failure by the City to comply with any provision of this policy will not invalidate or impair any Interest Rate Exchange Agreement.

#### **The Conditions under Which Interest Rate Exchange Agreements May Be Entered Into**

##### *Purposes*

Interest Rate Exchange Agreements may be used for the following purposes only to:

1. achieve significant savings as compared to a product available in the bond market if the use of derivatives helps to achieve diversification of a particular bond offering;
2. enhance investment returns within prudent risk guidelines;
3. prudently hedge risk in the context of a particular financing or the overall asset/liability management of the City;
4. incur variable rate exposure within prudent guidelines;
5. achieve more flexibility in meeting overall financial objectives than available in conventional markets; and
6. accomplish a financial objective not otherwise obtainable using traditional financing methods.

##### *Legality*

The City must receive an opinion acceptable to the market from a nationally recognized law firm that the Interest Rate Exchange Agreement is a legal, valid and binding obligation of the City and entering into the transaction complies with applicable law.

##### *Speculation*

Interest Rate Exchange Agreements shall not be used for speculative purposes. Associated risks will be prudent risks that are appropriate for the City to take.

## **Methods by Which Such Contracts Shall be Solicited and Procured**

In general, the City should procure Interest Rate Exchange Agreements by competitive bidding. The City shall determine which parties it will allow to participate in a competitive transaction. The City has the right to accept matching bids to diversify counterparty risk or reward firms for ideas and work performed. The parameters for the bid must be disclosed in writing to all potential bidders.

Notwithstanding the above, the City may procure Interest Rate Exchange Agreements by negotiated methods when the City makes a determination that, due to the size or complexity of a particular swap, a negotiated transaction would result in the most favorable pricing and terms or innovation.

To facilitate the procurement of Interest Rate Exchange Agreements, the City will engage an independent financial advisory firm to assist in the price negotiations, in the development of terms and in risk assessment. The City shall obtain an independent opinion that the terms and conditions of the Interest Rate Exchange Agreement reflect a fair market value of such agreement as of the date of its execution.

## **Form and Content of Interest Rate Exchange Agreements**

To the extent possible, the Interest Rate Exchange Agreements entered into by the City shall contain the terms and conditions set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, including any schedules and confirmation. The schedule should be modified to reflect specific legal requirements and business terms desired by the City.

The City shall consider including provisions that permit the City to assign its rights and obligations under the Interest Rate Exchange Agreement and to optionally terminate the agreement at its market value at any time. In general, the counterparty shall not have the right to optionally terminate an agreement.

### *Events of Default*

Events of default of a counterparty shall include the following:

1. failure to make payments when due;
2. material breach of representations and warranties;
3. illegality;
4. failure to comply with downgrade provisions; and/or
5. failure to comply with any other provisions of the agreement after a specified notice period.

The City will have the right to terminate the agreement upon an event of default by the counterparty. Upon such termination, the counterparty will be the "defaulting party" for purposes of calculating the termination payment owed.



## **Aspects of Risk Exposure Associated with Such Contracts**

Before entering into an Interest Rate Exchange Agreement, the City shall evaluate all the risks inherent in the transaction. These risks to be evaluated could include:

- a. counterparty risk – the risk of a payment default on a swap by an issuer's counterparty;
- b. termination risk – the risk that a swap has a negative value and the issuer owes a breakage fee if the contract has to be terminated;
- c. rollover risk – the risk of a failed remarketing or auction with respect to any variable rate bonds associated with a swap; or the risk that an issuer cannot secure a cost-effective renewal of a letter or line of credit;
- d. basis risk - the risk that floating rate cash flow streams may diverge from each other;
- e. tax event risk – the risk that the spread between taxable and tax-exempt rates will change as a result of changes in income tax laws or other conditions; and
- f. amortization risk – the risk that the amortization of the swap will not be fully integrated with the amortization of the underlying bonds.

The City shall endeavor to diversify its exposure to counterparties. To that end, before entering into a transaction, it should determine its exposure to the relevant counterparty or counterparties and determine how the proposed transaction would affect the exposure. The exposure should not be measured solely in terms of notional amount, but also how changes in interest rates would affect the City's "Value at Risk" exposure for outstanding agreements.

## **Counterparty Selection Criteria**

The City may enter into an Interest Rate Exchange Agreement if the counterparty has at least two long term unsecured credit ratings in the double A category from Fitch, Moody's, or S&P and the counterparty has demonstrated experience in successfully executing Interest Rate Exchange Agreements. If after entering into an agreement the ratings of the counterparty are downgraded below the ratings required, then the agreement shall be subject to termination unless (a) the counterparty provides either a substitute guarantor or assigns the agreement, in either case, to a party meeting the rating criteria reasonably acceptable to the City or (b) the counterparty (or guarantor) collateralizes the Interest Rate Exchange Agreement in accordance with the criteria set forth in this Policy and the Interest Rate Exchange Agreement.

## **Provisions for Collateralization**

Should the rating of the counterparty, or if secured, the entity unconditionally guaranteeing its payment obligations not satisfy the requirements of the Counterparty



Selection Criteria, then the obligations of the counterparty shall be fully and continuously collateralized by (a) direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America or (b) direct obligations of U.S. Agencies and such collateral shall be deposited with the City or an agent thereof. The specific collateral requirements for each Interest Rate Agreement shall be set forth in the corresponding swap documentation.

### **Long-Term Implications**

In evaluating a transaction involving the use of Interest Rate Exchange Agreements, the City shall review long-term implications associated with entering into Interest Rate Exchange Agreements, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations and other similar considerations.

### **Methods to be used to Reflect Such Contracts in the City's Financial Statements**

The City shall reflect the use of Interest Rate Exchange Agreements on its financial statements in accordance with generally accepted accounting principles.

### **Monitoring**

The City shall monitor the performance of Interest Rate Exchange Agreements and may employ a financial advisor to assist in evaluating the effectiveness of its Agreements. A written report, provided at a minimum quarterly, shall include at least:

1. preparing a description of each contract, including a summary of its terms and conditions, the notional amount, rates, maturity and other provisions thereof;
2. determining any amounts which were required to be paid and received, and that the amounts were paid and received;
3. determining that each counterparty is in compliance with its rating requirements;
4. determining that each counterparty is in compliance with the downgrade provisions, if applicable (See Counterparty Selection Criteria);
5. assessing the counterparty risk, termination risk, basis risk and other risks, which shall include the marked to market value for each counterparty and relative exposure compared to other counterparties and a calculation of the City's Value at Risk for each counterparty; and
6. determining, at least quarterly, that all posted collateral, if required, has a net market value of at least the collateral in the Interest Rate Agreement.